



SCHIP Q & A

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The House will soon be faced with a vote to override the President's veto on H.R. 3963, the Children's Health Insurance Program Reauthorization Act of 2007, legislation which would reauthorize and expand the State Children's Health Insurance Program (SCHIP), with several tax increases designed to *partially* offset the bill's costs.

Does H.R. 3963 increase the scope of the SCHIP program?

Yes. Under current law, states can cover families earning up to 200% of the Federal Poverty Level (FPL) or \$41,300 for a family of four in 2007 *or* those at 50% above Medicaid eligibility. As of 2010, H.R. 3963 increases the eligibility limit to 300% of FPL or \$61,950 for a family of four while continuing the current authority for states to define and disregard (i.e. ignore) income. As a result, H.R. 3963 places no practical limit on SCHIP eligibility since states can always manipulate the definition of income to expand coverage. In addition, Section 116(g) of the bill overturns CMS's current policy of requiring states to ensure that 95% of the eligible children in their state below 250% of FPL are enrolled before expanding coverage to higher incomes.

Does H.R. 3963's increased spending violate the spirit of PAYGO?

Yes. H.R. 3963 provides \$35.4 billion over five years and \$71.5 billion over ten years in new mandatory spending. This new spending is only partially offset by tax increases on cigarettes of 61 cents to \$1 per pack, and a cigar tax up to \$3 per cigar, supposedly (see below) generating \$35.5 billion over five years and \$71.7 billion over ten years. However, this CBO score overlooks a major gimmick which the bill employs to lower its costs. The bill dramatically lowers the SCHIP funding in the fifth year by 80%, from \$13.75 billion in the first six months to \$1.75 billion. In all likelihood, such a reduction will never take effect, which would make this an effort to generate unrealistic savings in order to artificially comply with PAYGO rules.

Does H.R. 3963 raise taxes?

Yes. H.R. 3963 increases the cigarette tax by 61 cents to \$1 per pack, and the cigar tax up to \$3 per cigar. Some conservatives may be concerned that the bill increases taxes on low-income individuals in order to pay for the expansion of SCHIP, which is designed to assist low-income families. In addition, this revenue source is constantly declining as fewer and fewer individuals begin to smoke, since placing a tax on cigarettes will likely deter sales,

leading some to question the efficacy of the offset. According a study by the Heritage Foundation, “To produce the revenues that Congress needs to fund SCHIP expansion through such a tax would require 22.4 million new smokers by 2017.”

Will H.R. 3963 decrease private insurance participation in the market?

Yes. Expanding SCHIP will generate a substantial shift away from the private health insurance market, by encouraging more and more children to obtain health care coverage from the federal government. According to CBO, under H.R. 3963, two million children will shift from receiving private health insurance to government health insurance. This means that they may get worse health care service and become increasingly dependent on the federal government. In addition, as H.R. 3963 begins to reduce SCHIP funding in 2012, some note that states may shift these children who would be newly eligible for a government program into Medicaid.

Would H.R. 3963 bar illegal immigrants from receiving benefits?

No. While H.R. 3963 states that “nothing in this Act allows Federal payment for individuals who are not legal residents,” the bill actually weakens existing law by removing the documentation requests under the Deficit Reduction Act (DRA), specifically the burden that citizens and nationals provide documentation proving their citizenship in order to be covered *under Medicaid and SCHIP*. Instead, the bill would require that a name and Social Security number be provided as documentation of legal status to acquire coverage and that those names and Social Security numbers be submitted to the Secretary to be checked for validity. It is unclear what substantive changes were made to the original bill the President vetoed (HR 976) beyond the cosmetic with regard to citizenship certification. Some conservatives may remain concerned that a Social Security number and name are not sufficient for proof of citizenship. For instance, according to a recent letter from Social Security Administration Commissioner Michael Astrue, a Social Security number would *not* keep someone from fraudulently receiving coverage under Medicaid or SCHIP (if they claimed they were someone they were not).

Does H.R. 3963 contain earmarks?

Yes. H.R. 3963 contains at least three authorizing earmarks. First, the bill disregards “extraordinary employer pensions” as income. According to CMS, only one state would fall into this category—Michigan, due to the presence of many auto manufacturers. In addition, the bill sets the disproportionate share hospital (DSH) allotments for Tennessee at \$30 million a year beginning in FY 2008, and sets the DSH allotment increases for Hawaii beginning in FY 2009 and thereafter as the allotments for low DSH states.

Would H.R. 3963 encourage additional SCHIP spending?

Yes. H.R. 3963 shortens from three to two years the amount of time a state has to spend its annual SCHIP allotment. Under current law, states are given three years to spend each year’s original allotment, and at the end of the three-year period, any unused funds are redistributed

to states that have exhausted their allotment or created a “shortfall,” i.e. commitments beyond the funding available. In addition, the bill establishes a process through which any unspent funds would be redistributed to any states with a shortfall. Some conservatives may be concerned that this process provides incentives both for states to spend their allotment quickly and to extend their programs beyond their regular allotments into shortfall, so as to be relieved by the unspent funds of other states.

Do conservatives support the SCHIP program?

Most conservatives support enrollment and funding of the SCHIP program *for the populations for whom the SCHIP program was created*. That is why in December the House passed, by a 411—3 vote, legislation reauthorizing and extending the SCHIP program through March 2009. That legislation included an additional \$800 million in funding for states to ensure that all currently eligible children will continue to have access to state-based SCHIP coverage.

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